Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
Dick Ackerman
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AGENDA 1

Wednesday, May 21, 2003
1:30 p.m.
Room 3191

0520 Secretary for Business, Transportation, and Housing

Issues

Proposal to Consolidate the Office of Traffic Safety

Background: The Office of Traffic Safety (OTS) is responsible for allocating federal grant funds to state and local entities to promote traffic safety. The office administers the California Traffic Safety Program and will distribute approximately $79 million of federal grant funds in 2003-04 to local and State agencies. The grants provided by OTS focus on the nine priority areas of traffic safety: (1) alcohol and drugs, (2) occupant protection, (3) pedestrian and bicycle safety, (4) traffic records, (5) emergency medical services, (6) roadway safety, (7) police traffic services, (8) motorcycle safety, and (9) speed control.

Issue: The Governor's Budget proposes to consolidate OTS with the Office of the Secretary for Business, Transportation, and Housing. The Administration estimates that this proposal will allow for contracted personnel services savings of $135,000 in 2003-04.
Staff Recommendation: **Staff recommends the Subcommittee deny the Administration's proposal to consolidate the Office of Traffic Safety.**
Action:

2660 Department of Transportation

Proposed Consent Items

Staff Recommendation: **Staff recommends the subcommittee approve the following finance letters. No issues or objections have been raised with these proposals:**

1. **Budget Realignment and Revision Detail.** This request amends Item 2660-001-0042, resulting in a net increase in expenditure authority of $10,000,000 by:

- Reducing the 2003-04 **allocated** reduction by $10,000,000 through the transfer of $10,000,000 from the Equipment Services Fund to the State Highway Account and allocating those expenditures. Therefore, it is requested that the transfer in Item 2660-031-0608 be increased by $10,000,000.
- Realigning the remaining $70,000,000 in 2003-04 **allocated** reductions by program and budget line item.
- Allocating $71,845,000 of the 2003-04 **unallocated** $89,845,000 reduction in Item 2660-001-0042. It is also requested that this reduction remain unallocated so Caltrans can maintain the flexibility to shift these reductions across programs to best manage the Department with reduced resources. Caltrans will submit a notification to Budget Committees by January 10, 2004, that details the nature of these reductions.

In addition to this Finance Letter, a separate notification is being transmitted to the Legislature under the provisions of Control Sections 8.50 and 26.00, and pursuant to Provision 3a of Item 2660-001-0042, Budget Act of 2002. These changes to the current year budget would shift OE&E savings to personnel services across programs to meet current year salary and wage costs and align actual workload with federal fund sharing. The net effects of those actions are as follows:

- Decrease Item 2660-001-0042 by $38,378,839.
- Increase Item 2660-001-0890 by $38,378,839.
- Reallocate $38,378,839 of the 2002-03 reductions by program.

2. **Unallocated Position Reduction Due to Attrition.** The Governor's Budget includes an unallocated position reduction from attrition of 471 positions. This request allocates the position reduction by position title and by functional area in Item 2660-001-0042.

3. **Toll Operations "FasTrak".** Amend Item 2660-001-0042 to redirect surplus reimbursement authority of $1,350,000 ($700,000 from the Maintenance Program and $650,000 from the New Technology Program) to the Traffic Operations Program to provide expenditure authority for reimbursements to be received from the Bay Area Toll Authority. Reimbursements will be used to procure 50,000 transponders each year in 2003-04 and 2004-05 for the FasTrak electronic toll collection program. The additional transponders will allow the program to continue accepting new FasTrak applications and replace expired transponders for existing customers.

4. **Transportation Finance Bank.** Amend Item 2660-496 to revert $389,000 in local assistance State Highway Account funding originally appropriated by Item 2660-101-0042, Budget Act of 2000, and reappropriated by Item 2660-490, Budget Act of 2002. In addition, it is requested that Item 2660-115-0042 be added to transfer these funds to the Local Transportation Loan Account. These funds will be used to provide the matching funds requirement for $3,000,000 in federal funds appropriated by Item 2660-115-0890, Budget Act of 2002 to implement the Transportation Finance Bank (TFB) Revolving Loan Program. The TFB was created to provide flexible, short-term financing to public entities and public/private partnerships for the delivery of transportation projects in California.

5. **Underground Storage Tank Program.** Amend Item 2660-001-0042 to redirect $4,687,000 from the Planning Program to the Capital Outlay Support (COS) Program to reflect the movement of the Underground Storage Tank Program (USTP) from the Planning Program to the COS Program. The USTP oversees the removal, replacement, and repair of underground storage tanks on current and former Caltrans properties in order to comply with State and federal environmental mandates. The USTP program will not be considered a component of the annual COS zero-based budget review.

6. **Transportation Permit Double-Checkers.** Increase Item 2660-001-0042 by $448,000 to extend 8.0 limited-term positions/7.7 personnel years in the Operations Program to continue manual double-checking of all permits for loads over 14 feet high until the Transportation Permits Management System (TPMS) is implemented.

7. **Local Bridge Scour and Inspection Program.** Convert 8.5 positions/8.2 Personnel Years (PYs) from permanent to three-year limited term to conduct bridge hydraulic scour erosion ("scour") evaluation workload on an identified 1,850 bridges with known foundations. The Budget Act of 2002 authorized the continued use of the 8.2 PYs for 2002-03 to gather and

evaluate bridge blueprints, called “as-built” plans and to document related workload. The department has now identified and documented workload that supports continuation of the 8.2 PYs for three years. Item 2660-001-0042 contains the detail for this request.

8. **Capital Outlay, California Department of Transportation.** Reappropriation of construction funding ($72,599,000 from the Public Building Construction Fund) for the San Diego Office Building Replacement project. The department argues that this proposal is necessary due to delays at the working drawing phase related to completing street vacation agreements and the approval of public sewer plans by the City of San Diego. As a result of these delays, the working drawings may not be completed in time to allow the project to proceed to bid by June 2003.

9. **Project Resourcing and Schedule Management (PRSM) System Reappropriation.** Add language to Item 2660-492 to reappropriate $7,057,000 from Item 2660-001-0042, Budget Act of 2001, reappropriated by Item 2660-492, Budget Act of 2002. The PRSM system will improve project scheduling and reporting and will meet the requirements of Chapter 622, Statutes of 1997 (SB 45). In October 2002, Caltrans discontinued the procurement process because only one bid had been received and it was double the estimated cost. Caltrans will reexamine the scope of the project to ensure it is consistent with the approved feasibility study report and will rebid the project.

10. **Budget Planning Model System (BPMS) Reappropriation.** Add language to Item 2660-492 to reappropriate $501,000 from Item 2660-001-0042, Budget Act of 2001, reappropriated by Item 2660-492, Budget Act of 2002. The BPMS will be a dynamic budget-planning model that will provide more-timely budget planning information and allow for the simulation of alternate economic and program scenarios. These funds were reappropriated for fiscal year 2002-03 to conduct an FSR for the model. The FSR has been completed, but the funding will not be encumbered by a consulting services contract until 2003-04.

11. **Suspension of the Two-way Traffic Signal Communication Mandate.** It is requested that the following language be added to Item 2660-295-0042 to suspend the Two-way Traffic Signal Communication mandate. This suspension is made to address the State’s budget year funding shortfall.

Pursuant to Section 17581 of the Government Code, mandates identified in the appropriation schedule of this item with an appropriation of $0 and included in the language of this provision are specifically identified by the Legislature for suspension during the 2003-04 fiscal year:

(2) 98.01.129—Two-way Traffic Signal Communication (Ch. 1297, Stats. 1994)

<u>**Subcommittee Action:**</u>

Issues

1. May Revision Finance Letter-Proposition 42 Suspension and the Traffic Congestion Relief Program.

The Administration proposes to Transfer $207,000,000 from the General Fund to the Transportation Investment Fund (TIF) pursuant to Article XIXB, Section 1 (d) of the Constitution. This request would fund cash expenditures for TCRP projects that received California Transportation Commission allocations prior to December 2002. Trailer Bill language is also proposed for a partial TIF suspension – for the amount over $207,000,000, and to specify that the General Fund shall be obligated to repay the TIF for the amount of the transfer that is suspended in 2003-04.

The Administration also proposes Item 2660-001-3007 be added in the amount of $49,466,000 for project delivery workload associated with these TCRP projects. This request includes 283 positions/268.7 personnel years and $23,940,000 to fund project delivery contracts.

Staff Recommendation: The May revise proposal is consistent with the Subcommittee's intent to restore funding for TCRP projects that have outstanding cash allocations. As a result of this proposal the TCRP will remain operative through 2008, and the General Fund will repay the balance of sales tax revenues not utilized for transportation purposes this year.

It is important to note that the Assembly has approved a different action relating to TCRF. **The structure of this proposal requires additional work. For purposes of sending this issue to conference committee, staff recommends the subcommittee approve the finance letter as proposed.**
Action:

2. *May Revision Finance Letter-Capital Outlay Support Workload*

The Administration proposes to augment staffing, and operating expenses and equipment to deliver planned Capital Outlay Support workload during the budget year. The Governor's Budget eliminated all of the TCRP positions and associated architectural and engineer contract funding with the understanding that they would be restored through the Capital Outlay Support Finance Letter to the extent that funding was available and workload justified. This Finance Letter reestablishes funding and positions for the portion of TCRP workload associated with State Transportation Improvement Program funds, local measure funds, and other non-Traffic Congestion Relief Fund sources. This request also adjusts funding and positions for other identified Capital Outlay Support workload. In total, 1,365 positions/1,296.5 personnel years are included in this request. This request includes an augmentation of $8,854,000 to fund architectural and Engineering Contracts, and an adjustment to the budgeted cost of a personnel year equivalents (PYEs) to reflect the weighted average cost of PYE for existing contracts.

The May Revision adjustment requires changes to the following items as outlined below:

- Increase Item 2660-001-0042 by $38,207,000
- Increase Item by 2660-001-0890 by $32,646,000
- Increase funding for Streets and Highways Code Section 188.10 by $5,185,000

- Increase funding for Government Code Section 8879.3 by $529,000
- Increase Reimbursements by $21,820,000

Staff Recommendation: No issues have been raised with this item. Staff recommends the subcommittee approve the finance letter as proposed.
Action:

3. May Revision Finance Letter-High Speed Rail Consolidation

The Administration proposes to reduce Item 2660-001-0046 by $1.992 million to rescind the proposal included in the Governor's Budget, which would have consolidated the High-Speed Rail Authority within Caltrans. Concurrently, the Administration requests to increase Reimbursements by $312,000 to fund three existing positions to permit Caltrans to assist the High-Speed Rail Authority in completing the environmental impact report and the implementation plan, and amend Item 2660-001-0042 to reflect these changes.
Staff Recommendation: Staff recommends the subcommittee approve the finance letter as proposed.
Action:

4. Environmental Enhancement Mitigation Program

The subcommittee has received numerous opposition letters to the Administration's proposal to delete funding for the Environmental Enhancement Mitigation Program (EEMP). The proposal calls for a reduction of $10 million (State Highway Account) to the program in 2003-2004, and a reversion of $6 million from the current-year budget.
Staff Recommendation: Staff recommends the subcommittee deny the Administration's proposal to revert the current-year funds for this program. Additionally staff recommends the subcommittee approve $5 million for the 2003-2004 budget-year.
Action:

2665 High-Speed Rail Authority

Issues

May Revise Finance Letter- Restoration of HSRA

The Administration proposes to add $3,839,000 to reverse the consolidation of the High-Speed Rail Authority (HSRA) within Caltrans as proposed in the Governor's Budget. This request specifically consists of:

- $2,597,000 from the Public Transportation Account to reinstate the budget for the Authority. Of this amount, $787,000 is for the administration of the Authority and $1,810,000 is to complete the EIR.
- $930,000 in federal funds for Implementation Plan workload to be completed prior to the November 2004 ballot measure and for legal support related to the EIR.
- $312,000 in federal funds to provide reimbursement to the Department of Transportation (Caltrans) for three personnel years of workload to permit the Authority to leverage the expertise of Caltrans staff on environmental issues in assisting the Authority in the completion of the EIR and the Implementation Plan.

It is also requested that the following provisional language be added to Item 2665-001-0046:

1. Of the amount available in this item, $312,000 shall only be available to reimburse the Department of Transportation for workload related to the completion of the Environmental Impact Report and the Implementation Plan.

Staff recommends the subcommittee approve the finance letter as proposed.
Action:

2720 California Highway Patrol

Issues

1. ***Rate Increase for the State Emergency Telephone Number Account (911 Account).***

Issue: The budget proposes trailer bill language to increase the surcharge on intrastate calls from 0.72 percent to one percent. This will increase revenues to the State Emergency Telephone Number account by $46.6 million ($181.2 million total in 2003-2004). Of this amount, CHP will receive an additional $41 million (CHP currently receives $4 million for its 911 response activities).

Although the majority of revenues generated from this proposal will be allocated to CHP, this item will also be considered when the subcommittee hears the Department of General Services' (DGS) tomorrow. It is also important to note that the Administration has proposed a new Public Safety Surcharge (PSS) which will generate approximately $62 million in additional funds for CHP (Please see issue #2 on the next page for a summary of the PSS proposal). **In total, the Administration is proposing $103 million for CHP.**

Staff Recommendation: Staff recommends the subcommittee delete the CHP's expenditures from the 911 account. Please see the staff recommendation under issue #2 on the next page for further detail.

2. Creation of a New Public Safety Surcharge Account

Background: The budget proposes the creation of a new Public Safety Surcharge Account (PSS) to provide an ongoing source of funding for CHP's protective and security services. The budget proposes to generate approximately $62.5 million in revenue from the PSS in 2003-2004. The PSS would require an additional surcharge on intrastate telephone calls (separate from the existing 911 surcharge). Specific details of the Administration's proposal include the following:

- Establishes an initial rate of 0.505 percent in the budget year, and a permanent cap of 2 percent.
- Allows CHP to determine and establish the surcharge rate for each fiscal year. The trailer bill language requires the Department of Finance to approve CHP's surcharge rate determination.
- Establishes a maximum 10 percent reserve in the PSS.

The May Revision also proposes to reduce Item 2720-001-0044 by $32.5 million to reflect a fund shift from the MVA to the PSSF for CHP's Homeland Security tactical alerts. It is also requested that Provision 1 of Item 2720-001-0044 be amended to conform to this request as follows:

> *"Of the funds appropriated in this item, the amount of $32,500,000 is allocated for security tactical alerts. If the amount used for tactical alerts is less than $32,500,000, the remainder of that sum shall revert to the ~~Motor Vehicle Account~~ Public Safety Surcharge Fund."*

This fund shift reflects the first year of a two-year proposal to shift all Homeland Security and non-transportation security activities of the CHP to the PSSF. This fund shift is intended to consolidate funding for security activities of the CHP into a singular fund source by 2004-05. The 2003-04 partial fund shift of the tactical alerts portion of the Homeland Security activities is proposed to maintain a stable rate for the PSSF from 2003-04 through the subsequent years because the first year revenues for the PSSF will be partial year revenues only.

It is also requested that Item 2720-011-0890 be deleted to conform to this request. Control Section 8.00 can be used to offset the prior expenditure of state funds to the extent that federal funds are received for Homeland Security activities. The reserve of the MVA will be increased by the $32.5 million by the end of 2003-04 as a result of this proposal.

Staff Recommendation: Staff recommends the subcommittee approve the Administration's PSS proposal with the following changes:

- ***Increase the PSS rate to include the $41 million that was proposed under the Administration's 911 surcharge increase. All expenditures that were scheduled to receive funds under the 911 account will now receive funds under the PSSF.***

- ***Modify the provisions that authorize CHP to establish the surcharge rate. The Department of General Services should be responsible for setting the PSS surcharge rate.***

Action:

2740 Department of Motor Vehicles

Issues

1. ***Loopholes in Truck Weight Fee Program Results in Significant Revenue Loss for State Highway Account.***

Background: Senate Bill 2084 (Polanco, Chapter 861, Statutes of 2000) revamped the commercial vehicle registration system by authorizing the state to convert from an unladen weight system to a gross vehicle weight system (GVW), and by initiating a permanent trailer identification program (PTI). As a member of the International Registration Program (IRP), California is authorized to collect registration fees for commercial trucks that operate on an inter-state basis. Under the IRP, the 48 contiguous states, the District of Columbia, and three Canadian Provinces collect registration fees for trucks based in their jurisdictions and then share those fees based on the amount a particular truck operates in each jurisdiction.

Prior to SB 2084, California registered commercial trucks by using an unladen (empty) weight system and charging vehicle license fees (VLF) on trailers and semitrailers. California was the only member of the IRP to use the unladen weight system, and eventually the IRP members required California to comply with their fee systems. The Legislature approved SB 2084 because the state was in jeopardy of losing its membership in the IRP and the ability to collect and share commercial vehicle share fees with other IRP members. **SB 2084 was agreed to by all relevant parties, including DMV, Caltrans, the California Farm Bureau, and the commercial trucking industry.** Under the GVW, commercial vehicles with a declared weight over 10,000 pounds pay fees based on the weight of the truck (a fee schedule was also approved). The new system also exempts trailers and semitrailers from vehicle registration and payment of the vehicle license fee.

Issue: A major component of SB 2084 was ensuring that the new system would remain revenue neutral. Section 1 of the bill reads:

"For purposes of this act, revenue neutrality requires that all recipients of the fees collected under the system in effect on December 31, 2000, shall receive the same level of funding, with the same degree of flexibility, after the conversion to the system created by this act."

When SB 2084 passed, the agreement with industry was that the new program would remain revenue neutral and the state would not lose transportation revenues. Unfortunately this has not been the case. Since the new program was enacted, the state has lost approximately $300 million in revenue (truck weight fees are deposited into the State Highway Account). Based on conversations with the Administration, the loss of revenue can be attributed to fewer vehicles paying the new weight fees. The Administration is proposing trailer bill language to cleanup SB 2084, and to ensure that the revenue neutrality agreement is adhered to. The first version of the trailer bill proposed additional enforcement measures and fee increases to the existing weight schedule. In subsequent discussions with the Administration, the weight schedule may no longer need to be changed.

Staff Recommendation: Staff recommends the subcommittee approve the Administration's proposed trailer bill language to cleanup SB 2084.

Action:

2. ***Various Fee Increases Proposed to Address Motor Vehicle Account Shortfall***
Background: The LAO estimates that, under a worse-case scenario (i.e. no corrective action), the discrepancy between expenditures and revenues could grow to $270 million in the 2003-2004 budget year.

The Administration proposes trailer bill language to implement various fee increases to address the projected revenue shortfall for the MVA. In total, these fee increases are intended to raise revenues by $163 million in 2003-2004, and $333 million annually. Listed below are the fee proposals, which will take effect in the upcoming budget year.

New MVA Fees	2003-2004 Projected Revenues ($ in Thousands)	Ongoing Projected Revenues ($ in Thousands	Existing Fee	New Fee
Increase identification card fees for non-seniors. Seniors will now receive their cards free of charge.	$8,745	$19,000	$6	$20
Authorize Business Partner Automation Fee. This fee would apply to private firms for registering vehicles ad performing other transactions on-site (of the private firm). The fee is authorized in statute but has never been implemented	$1,950	$2,000	$2	$3
Increase non-commercial drivers license fees for a five-year license.	$30,100	$67,000	$15	$24
Increase vehicle registration fees. Of this amount, $4 would be dedicated to CHP officers.	$94,850	$190,000	$30	$37
Standardize various transaction fees.	$15,500	$31,000	$2-$15	$15
Establish new penalties for failure to file transfer of title documents.	$12,000	$24,000	-	$15
Totals	$163,145	$333,000	-	-

Staff Recommendation: The fee proposals are necessary for one reason, to avert a shortfall in the MVA. There is no quantifiable data that supports raising these fees in response to increasing costs of the respective programs. For example, there is no data that indicates the costs for issuing and distributing identification cards has increased to $20. If the Legislature does not approve these fees, departments such as CHP, DMV, and the Air Resources Board will have to implement ongoing reductions totaling $330 million.
Staff recommends the subcommittee approve all of the fee increases proposed by the Administration.
Action:

3. ***Recommendations from Senate Select Committee on Oversight***

The subcommittee has received various recommendations from the Senate Select Committee on Oversight to implement reductions to help stabilize the Motor Vehicle Account. Subcommittee staff have reviewed these proposals and recommend the following for consideration:

- Eliminate toll free numbers for the DMV call centers.
- Increase span of control (employees per supervisor/manager) from 1:7 to 1:8.5. This would result in terminating approximately 206 manager/supervisor positions.
- Require all auto insurers to electronically report proof on financial responsibility to DMV by 2006.
- Eliminate on position that is "loaned" to the Attorney General's Office.
- Eliminate funding for two retired annuitants.

<u>Action:</u>

4. ***Online Vehicle Registration***

Background: Three years ago the Legislature approved the Administration's proposal to implement an online vehicle registration system. As part of their original request the Administration requested that the state pay the credit card convenience fee, however the Legislature denied this item from the proposal.

Although the program is still relatively new, it is arguable if usage of the online system has met initial projections. To help stimulate usage of the system, the budget proposes to eliminate the $4 dollar credit card convenience fee charged to individuals who register online. The Administration argues that the convenience fee has suppressed both telephone and online credit card transactions that might otherwise be diverted away from field offices.

Issue: The timing of this proposal is somewhat questionable. Given the status of the MVA and other transportation funds, it is difficult to justify an augmentation to the program for the following reasons:

- The Administration is not able to provide a reasonable estimate or projection as to the state's costs for paying the convenience fee. The amount needed to pay the convenience fee could be anywhere from $200,000 (thousand) to $2 million.
- The Administration argues that this proposal will help reduce volume at the field offices, but there is no estimate as to how this proposal may or may not reduce costs.

Staff Recommendation: **Staff recommends the subcommittee deny this proposal.**

<u>Action:</u>

5. ***Finance Letter*-Repair Fullerton Field Office.**
The Administration requests that the following items be increased by a total of $1,569,000 for asbestos abatement and related emergency repairs in the Fullerton Office of the DMV.

Increase Item 2740-001-0042 by	$97,000
Increase Item 2740-001-0044 by	$834,000
Increase Item 2740-001-0064 by	$638,000

Leaks have resulted in the deterioration of asbestos ceiling plaster and tiles that, on several occasions, has fallen onto workstations and personnel. The repairs proposed would abate the asbestos and renovate interior areas. The request also includes the cost to relocate the office for six months during construction and to replace modular furniture upon reoccupation of the building.

***Staff Recommendation:* No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**
Action:

Other Budget Issues
Staff Recommendation: No other issues have been raised with DMV's budget. Staff recommends the subcommittee approve the remainder of the department's budget as proposed.

Action:

2640 Special Transportation Programs

May Revise Finance Letter-Proposed Consent Item

Capitation of Program Funding "Spillover": The Administration proposes the following budget bill language to cap the revenues and expenditures for Special Transportation Programs at the $100.4 million level specified in the 2003-04 Governor's Budget.

Notwithstanding Section 99312 of the Public Utilities Code, not more than $100,377,000 shall be transferred to the Special Transportation Programs.

> The sales tax on gasoline and diesel sales is allocated for transportation purposes. A portion of the sales tax on gasoline (and diesel sales) is allocated to the Public Transportation Account (PTA). When gasoline prices are high relative to other sales, the PTA receives the "spillover" sales tax revenues.
>
> The May Revision proposes to maintain the base level of transfers to the PTA, but to specify that any excess sales tax revenue on gasoline remains in the General Fund, thereby increasing General Fund revenues by $87 million in 2003-04.

The May Revision assumes gasoline prices at the pump to average approximately $1.90 per gallon during the first two quarters of 2003. This compares with pump price expectations of $1.56 per gallon and $1.65 per gallon, respectively, in the Governor's Budget. The sharply higher gas prices and modestly increased taxable sales growth for the May Revision results in approximately $87 million that would be transferred to the PTA, absent the May Revision proposal. The May Revision proposes a partial Proposition 42 suspension and that the General Fund repay the Transportation Investment Fund (TIF) by June 30, 2009, for any funds not transferred in 2003-04 due to the suspension. The $87 million increase in General Fund sales tax revenue in 2003-04 due to the PTA spillover revenue is not included in the General Fund repayment, because it would not otherwise be considered TIF revenue.